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(AND PROFITS)

SLOWER GROWTH

BUT CONTINUED GROWTH FOR 2019

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**CELEBRATING PROJECTS
OF DISTINCTION**
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ABC NEW MEMBERS
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ECONOMISTS:

EXPECT SLOWER GROWTH, BUT RECESSION UNLIKELY IN 2019



THE AVERAGE
GROSS
DOMESTIC
PRODUCT (GDP)
GROWTH
FOR 2018 WAS
2.9 PERCENT.

By James Debilzen — ABC of Wisconsin Marketing & Communications specialist

An economist for the State of Wisconsin doesn't see an end to the current period of economic growth, but he expects growth to slow as employers across all industries grapple with new challenges, such as higher material costs and increased labor costs brought on by a declining workforce.

Dennis Winters, the chief economist for the Wisconsin Department of Workforce Development, said he doesn't believe a recession is imminent, adding he likes to joke that economists have predicted "seven of the last three recessions."

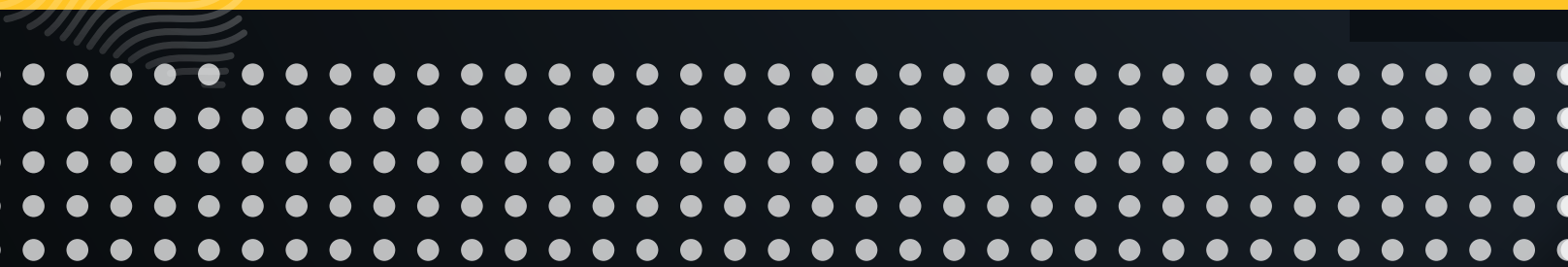
"There's been a recession coming 18 months into the future for the last three years, right?" Winters said during ABC of Wisconsin's 2019 SuperCon in February. "People keep talking about it ... It's not a perfect science, but there's nothing I can see out there that will turn this into a recession at this point."


Winters' message to the SuperCon crowd was similar to his 2018 presentation; the economy is still growing, but slower growth is ahead.

"We are on the cusp of having the longest economic expansion, essentially, in modern times," Winters said. "And if you're around in July this year, you'll be part of history. This economy is old, but economies don't die of old age."

"We may talk our way into (a recession)," he added. "It is going to be slower growth going forward than what we've seen, but on the whole, I'm kind of a 'The slower the growth, the longer the growth' opinion. So, I don't mind two-and-a-half percent (economic growth) if it's going to go on forever."

Winters' economic outlook is in line with the position shared by ABC National's chief economist, Anirban Basu, who noted the United States' economic growth softened in the fourth quarter of 2018, but remains in positive territory. The average gross domestic product (GDP) growth for 2018 was 2.9 percent, according to ABC National's analysis of data published by the U.S. Bureau of Economic Analysis.





67% of contractors
projected
rising sales

"It is quite likely that the U.S. economy will expand at around 2 percent this year," Basu said. "Though interest rates remain low and hiring is still brisk, a number of leading indicators suggest that the nation's economy will soften somewhat during the quarters ahead, which can be partly attributed to a weakening global economy. This won't unduly impact nonresidential construction activity, however, since the pace of activity in this segment tends to lag the overall economy, and strong nonresidential construction spending expected in 2019."

Sales expectations in the nonresidential construction sector remained upbeat in the fourth quarter of 2018, according to ABC National's latest Construction Confidence Index (CCI), but the proportion of contractors anticipating significant sales increases in the following two quarters dipped by five percentage points to 15.08 percent.

ABC National noted more than 67 percent of contractors projected rising sales, 20.91 percent anticipated no change in sales and slightly less than 12 percent expected sales to decline in 2019. More than 50 percent of contractors also anticipate their profit margins will grow in the first half of the year – with only one in 10 contractors expecting their profit margins to decline – even with rising labor costs.

"Despite rising materials costs, an ongoing skills shortage and higher borrowing costs, CCI continues to indicate optimism in

America's construction sector," Basu said. "Construction industry leaders expect profit margins will hold up well during the first half of 2019 despite these rising costs, which speaks to the ongoing strong demand for construction services."

ABC National said six in 10 contractors expect to increase staffing levels in upcoming quarters, but finding workers to fill open and new positions has become a perennial problem, Winters said.

"So many job openings out there, and we can't hire them fast enough," Winters said. "There's not enough people. We have a quantity problem ... We've never been here before and it's not going away. And all those plans you use to keep employees are going right out the window."

Steve Shulfer, an architect, partner and CEO of Middleton-based Sketchworks Architecture, said his company and his clients are seeing the effects of rising costs firsthand, especially those tied to the labor shortage.

"I think there's definitely some trepidation in the marketplace because of rising costs," he said. "I think a lot of that, from what we hear, is attributed to labor costs ... We've had examples of projects where we'll take a \$12 (million) or \$13 million apartment project out to bid and get one plumber to submit a bid on it. It's just people are busy."

"I think the combination of rising interest rates, rising labor costs, costs escalating across the board has many of the

MORE THAN
50 PERCENT OF
CONTRACTORS
ANTICIPATE
THEIR PROFIT
MARGINS WILL
GROW IN THE
FIRST HALF OF
THE YEAR


12% of contractors
expected sales
to decline in 2019

developers that we're talking to simply a little nervous and maybe reluctant to pull the trigger on projects," Shulfer added. "... That said, I think the economy is still rolling along strong and people are still busy, and that's all a good thing."

ABC National's Construction Backlog Indicator (CBI) contracted slightly during the last quarter of 2018, but it remains high by historic standards. The CBI is an economic indicator that reflects the amount of work lined up for commercial, institutional, industrial and infrastructure construction contractors in the coming

months. CBI reached a record high of 9.9 months in the second quarter of 2018 and averaged about 9.1 months throughout the year, according to ABC National.

The backlog in the Middle States region – which includes Wisconsin – remained between seven and eight months throughout 2018. The most recent CBI report represents the lowest level of backlog in three years. ABC National noted there is evidence that the auto production and sales cycle has peaked, which has a disproportionate impact on the Middle States region.

"A number of factors contributed to the decline (nationally), including a surge in materials prices in early 2018, which likely hindered project planning and contract negotiations later in the year," Basu said. "Interest rates also rose during much of the year, potentially resulting in some projects being postponed or canceled. It is also likely that the feverish market volatility during the fourth quarter of 2018 caused some investors to hold off until the financial marketplace stabilized, which it recently did." 

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